

**QUARTERLY
REPORT
April 1977**

COUNCIL ON WAGE and PRICE STABILITY

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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

The President
The White House

Dear Mr. President:

Enclosed is the tenth quarterly report on the activities of the Council on Wage and Price Stability as required by Section 5 of the Council on Wage and Price Stability Act. This report covers the Council's operations during the three-month period January 1977 through March 1977.

The actions of the Council during that time are listed in Chapter I. Chapters II and III elaborate on the Council's studies, reports, testimony and filings before government agencies during the first quarter of 1977. The studies currently underway are discussed in Chapter IV.

The Council will continue its studies of the private sector, evaluating particular price and wage increases as well as the industry-specific factors that shape present and future price movements. The evaluation of the costs and benefits of various government regulations also will continue.

Respectfully,



W. Michael Blumenthal
Chairman



Robert W. Crandall
Acting Director

TABLE OF CONTENTS

Transmittal letter	i
Council Authority	v
CHAPTER I: THE QUARTER AT A GLANCE	1
CHAPTER II: MONITORING THE PRIVATE SECTOR	4
Price Monitoring	5
Rising Hospital Costs	5
Cement	6
Industrial Plant Construction Costs	7
Wage Monitoring	9
Collective Bargaining Review of 1976, Outlook for 1977	9
CHAPTER III: MONITORING FEDERAL ACTIONS	12
Food and Drugs	12
Transportation	13
Trucking	13
Automobiles	14
Airlines	14
Occupational Safety and Health	15
Commercial Diving Standards	15
Lead Exposure	16
Environment	16
Air Emission Trade-off Policy	16
T.V. Imports	17
Other Actions	17
UHF Noise	17
Effect of Government Regulation on the Steel Industry	17
CHAPTER IV: STUDIES IN PROGRESS	19
Industry Price Behavior	19
Automobiles	19
Food	19
Health Care	20
Metals	20
Textiles	20
Industrial Capacity	21

General Price Studies	21
Price Measurement	21
Recession Prices	21
Stage-of-Process Price Behavior	22
Wage Studies	22
Public Sector Wage Monitoring	22
APPENDIX A: Council Organization	23
APPENDIX B: Council on Wage and Price Stability Act	25
APPENDIX C: Inflation Impact Statement Program	29
APPENDIX D: List of Council Reports and Filings	30

COUNCIL AUTHORITY

Congress created the Council by enactment of the Council on Wage and Price Stability Act on August 20, 1974 (Public Law 93387) This Act, which contained an expiration date of August 15, 1975, was amended and extended until September 30, 1977, by Congress' enactment on August 9, 1975, of the Council on Wage and Price Stability Act Amendments of 1975 (Public Law 9478, signed on August 9, 1975). The text of the Act, as amended, is set forth in Appendix B.

It is the Council's responsibility under the Act to monitor and analyze inflationary activities throughout the economy. In the private sector, the Council examines price and wage activities for inflationary impact. The Council conducts comprehensive studies of certain major industries as well as investigations of specific price or wage increases as they are announced. These investigations are intended to discover whether price increases are warranted by cost or demand considerations. In some instances, the Council has held public hearings to gather data and has issued public reports of its findings. Where the Council has found a wage or price increase to be inflationary, it has issued public statements of its findings and, on occasion, has requested a delay or a reduction in the increase.

The Council also reviews the activities and programs of the departments and agencies of the Federal Government to discover whether they have any inflationary impact. It does this in two ways. First, pursuant to Executive Orders 11821 and 11949 and OMB Circular A-107, the Council reviews the "economic impact" analyses that the Executive branch agencies are required to make of proposed rules and regulations that would have a "major" economic impact. Second, with respect to the independent regulatory agencies as well as the Executive branch agencies, the Council, pursuant to its statute, "review(s) and appraise(s) the various programs, policies, and activities of the departments and agencies of the United States for the purpose of determining the extent to which those programs and activities are contributing to inflation; and intervene(s) and otherwise participate(s) on its own behalf in rulemaking, ratemaking, licensing and other proceedings before any of the departments and agencies of the United States, in order to present its views as to the inflationary impact that might result from the possible outcomes of such proceedings."

The Council has no legislative authority to impose mandatory controls on prices, wages, and interest, rents, profits, dividends or other payments, nor has it the authority to prevent or delay any federal agency action.

CHAPTER I

THE QUARTER AT A GLANCE

The following chronology highlights activities of the Council on Wage and Price Stability during the first quarter of 1977. Chapter II elaborates on the background and content of many of these actions.

January 6: The Council filed comments before the Interstate Commerce Commission urging the elimination of restrictions on the use of "piggyback" services by motor carriers. (CWPS-221)

January 6: Council Acting Director William Lilley III announced the resignation of Vaughn C. Williams, General Counsel. (CWPS-222)

January 7: The Council filed comments before the Federal Trade Commission and Food and Drug Administration concerning the agencies' proposed regulation of over-the-counter drug advertising and labeling, which called attention to the diversity of the American consumer market and urged the two agencies to assess carefully the information needs of all consumers before defining a strict choice of words for use in advertising and labeling non-prescription drugs. (CWPS-223)

January 7: The Council filed comments before the National Highway Traffic Safety Administration on passenger automobile average fuel economy standards. (CWPS-224)

January 13: The Council released its analysis of the collective bargaining agreement between the United Auto Workers and General Motors, Ford and Chrysler. (CWPS-225)

January 17: The Council released its Staff Report, The Rapid Rise of Hospital Costs.

January 18: The Council filed comments before the Occupational Safety and Health Administration criticizing proposed standards for commercial underwater divers. (CWPS-226)

January 18: The Council testified before the International Trade Commission arguing that restricting the importation of color TV sets would be inflationary and would impose unreasonable costs on consumers. (CWPS-227)

January 18: The Council released its report, Catalog of Federal Regulations Affecting the Iron and Steel Industry. (CWPS-228)

January 19: The Council released its Staff Report, The Interstate Commerce Commission's Staff Analysis of the Costs and Benefits of Surface Transport Regulation. (CWPS-229)

January 19: Council Acting Director William Lilley III announced the resignation of James C. Miller III, Assistant Director for Government Operations and Research. (CWPS-230)

February 14: The Council released its Staff Report, Collective Bargaining: Review of 1976, Outlook for 1977.

February 15: The Council filed comments before the Interstate Commerce Commission criticizing proposed action to extend the scope of trucking regulation by substantially limiting the exemption from regulation currently enjoyed by agricultural cooperatives. (CWPS-231)

March 4: The Council filed comments before the Department of Agriculture opposing any increase in milk price supports. (CWPS-232)

March 7: The Council filed comments before the Environmental Protection Agency endorsing the agency's rule which permits industrial firms to build or expand plants in areas where national air quality standards have not yet been attained, if that new pollution source can persuade an existing polluter to lower its emission levels. (CWPS-233)

March 15: The Council filed comments before the Occupational Safety and Health Administration urging modification of its proposed standard for exposure to lead in the workplace. (CWPS-234)

March 15: Council Acting Director Robert W. Crandall testified before the Senate Appropriations Subcommittee on the Council's FY 77 supplemental and FY 78 budget.

March 16: The Council filed comments before the Federal Communications Commission on a proposed standard for UHF television receivers. (CWPS-235)

March 18: The Council released its Staff Report, Trends In Industrial Plant Construction Costs.

March 22: Council Acting Director Robert W. Crandall testified before the House Economic Stabilization Subcommittee on the extension of the Council on Wage and Price Stability.

March 22: Council Acting Director Robert W. Crandall testified before the Senate Subcommittee on Aviation of the Senate Committee on Commerce, Science and Transportation on airline regulatory reform. (CWPS-236)

March 25: Council Acting Director Robert W. Crandall announced the resignation of Morris D. Feibusch, Assistant Director for Public Affairs and Congressional Relations. (CWPS-237)

March 29: The Council released its Staff Report, Prices and Capacity Expansion in the Cement Industry.

CHAPTER II MONITORING THE PRIVATE SECTOR

The Council's responsibility to identify and analyze inflationary influences in the economy extends to both the private and the public sectors. Inflationary influences in the private sector are evaluated by the Council's Office of Wage and Price Monitoring. The Council's Office of Government Operations and Research is concerned with examining the inflationary potential of federal regulatory policies. Details of the past quarter activities of this office will be found in Chapter III. All of the Council's filings in the public sector and its wage and price studies in the private sector are available to the public. A list of them may be found at Appendix D.

The Council's responsibility to identify and analyze inflationary influences in the private sector extends to long-term structural factors that may affect price and wage movements, as well as to specific price increases.

In its pricing studies, the Council's Office of Wage and Price Monitoring investigates capacity, profit, price, demand, and supply conditions in individual industries or sectors. It also analyzes structural features and changes in the general economic environment -- industrial concentration, noncompetitive practices, comparative price behavior, and other factors -- that may affect the performance of the economy with respect to prices. These studies are used, where appropriate, to urge firms to exercise price restraint.

In monitoring wages, the Office cooperates with labor and management to improve the structure of collective bargaining. It also conducts general wage studies and strives to improve wage data bases in both the public and private sectors of the economy.

A summary of the studies completed and released this quarter follows. A description of the Council's current studies, under way but not completed as of March 31, 1977, may be found in Chapter IV of this Quarterly Report.*

*Those studies marked with an asterisk were completed between March 31, 1977 and the publication of this Quarterly Report.

PRICE MONITORING

Rising Hospital Costs

On January 17, the Council published a report, "The Rapid Rise of Hospital Costs," written by Drs. Martin Feldstein and Amy Taylor of Harvard University. The report analyzed trends in hospital costs and the industry's labor and nonlabor components between 1955 and 1975. Its primary findings are:

- 1) The cost of a day of hospital care is currently increasing at an annual rate of more than 15 percent. While the general level of consumer prices has risen 125 percent since 1950, the cost of a day of hospital care has climbed more than 1,000 percent.
- 2) The sharp rise in per capita expenditure on hospital care results largely from the rising cost per patient day, which is estimated in this report to account for 89 percent of the average annual increase in the per capita cost of hospital care. The remaining 11 percent is accounted for by the more moderate rate of increase in the number of days of patient care.
- 3) The average cost per patient day rose from \$15.62 in 1950 to \$175.08 in 1976. Even in constant (1967) dollars, the average cost per patient day was five times greater in 1976 than in 1950. The annual rate of increase in daily hospital costs accelerated sharply after 1966 when the Medicare and Medicaid programs were enacted.
- 4) Although hospital wage rates have risen more rapidly than wages in other parts of the economy, these relatively greater wage increases are responsible for only a small part of the overall increase in the cost of hospital care. Had earnings of hospital workers risen no faster than the average for all private, nonfarm production workers, the annual rate of increase in daily hospital costs would have been only about one percentage point lower.
- 5) About 75 percent of the rise in daily hospital costs relative to the CPI is due to the increase in inputs per patient day, while only 25 percent of this increase results from higher input prices.

- 6) The percentage of hospital costs paid by private insurance rose from 29.3 percent in 1950 to 43.6 percent in 1975; the corresponding growth of Government insurance is from 21.1 percent of total costs to 44.5 percent. Thus, while patients were paying about one-half of the average hospital bill 25 years ago, they are now paying less than one-eighth of the bill. As a result of the dramatic increase in hospital insurance coverage, the net real cost to the patient through direct payments has hardly risen at all over this period while the total bill has soared astronomically.
- 7) Comparisons of wage rate increases and earnings changes indicate that rising hospital costs cannot be explained by an upgrading of the work force. In fact, the available evidence suggests a shift over time in the labor force mix toward more low-wage personnel.
- 8) Data on the relative wages of comparable hospital and non-hospital employees indicates that by 1972 hospital workers could no longer be termed "underpaid."

Two additional reports which serve as background studies to the published report were also issued in January. The first, "Quality Change and the Demand for Hospital Care," is an econometric investigation into the dynamics of hospital cost inflation. Its principal conclusion is that "Hospitals have responded to this increased demand (caused by increased insurance coverage) by raising their price and providing a more expensive style of care. This change in the apparent quality further increased demand, setting off another round of price and quality increases." The second report, "Differences Among Hospitals in the Rates of Increase of Cost and Related Characteristics," describes in great detail trends in hospital cost inflation and analyzes these trends in terms of specific hospital characteristics.

Cement

Concerned about possible shortages of industrial raw materials, the Council has undertaken a series of studies designed to measure the adequacy of productive capacity in these areas. A study of the paper industry, released in December, 1976, was the first in this series. Cement is a basic raw material which was in short supply in 1973-74, and fears have been raised that another shortage is likely as the economic recovery continues. The Council has recently completed a study of prices and capacity in the cement industry and reaches the following conclusions:

a) Capacity utilization in the cement industry is currently about 80 percent. Therefore, there is enough unused capacity to accommodate substantial output growth over the next two years.

b) Cement production is a regional industry, so some sections of the country may experience shortages while other sections have idle capacity.

c) In some markets investment in new cement capacity is profitable at the present time. Price increases of slightly less than the general inflation rate should be sufficient to attract new investment capital to this industry.

d) Given the long lead time necessary to build new cement capacity, some supply tightness could develop in selected regions in 1979 or 1980. There is no reason, however, why investment by firms should not be forthcoming in these areas to meet longer range supply and demand needs.

Industrial Plant Construction Costs

As a supplement to its studies on prices and investment behavior in industries where supply shortages might occur, the Council published a study in March on the rising cost of constructing new industrial facilities. The study, limited to analyzing changes in constructions and capital equipment costs, found the following trends:

Long-Term Trends

- Plant construction and equipment costs have risen somewhat more than prices in general over the past ten years. The implicit price deflator for nonresidential fixed investment rose 72 percent from 1966 to 1975, compared with a 66 percent rise in the broader deflator for GNP, and with a 65 percent rise in the WPI for finished goods.
- The larger rise in nonresidential fixed investment costs resulted from a 106 percent increase in the plant construction cost component; the producers' durable equipment component rose only 55 percent.
- The relatively larger rise in plant construction costs resulted from increases in both labor costs and construction machinery and equipment prices. Average hourly wages and benefits of unionized construction workers rose 112 percent over this period, compared with a 90 percent rise in average hourly compensation for all workers in the private economy, and the Wholesale Price Index for construction machinery and equipment rose 92 percent.

- An aggregated index of construction costs rose more than a similar index of construction prices -- 117 percent to 99 percent. The price index reflects gains in productivity, and the difference indicates that increased construction costs have not been fully passed along in higher prices for finished construction.
- Producers' durable equipment prices rose less than all machinery and equipment prices over the decade -- 55 percent versus 67 percent.

Shorter-Term Trends

- Construction costs rose two and one half to three times more than comparable finished goods prices over the 1966-71 period.
- This rise in construction costs was due largely to a sharp rise in construction labor costs that exceeded the increase in labor costs generally in the late 1960's and early 1970's. Construction labor costs have increased more slowly in recent years.
- Construction costs -- particularly construction materials prices and later machinery and equipment prices -- rose in line with wholesale prices of finished goods in the last commodity inflation and business cycle.
- Nonresidential fixed investment was restrained by the high costs of borrowing in 1973-74 and by a short supply of funds in 1974. At the same time, firms' internal funds declined due to reduced cash flows, and little outside equity capital was raised.
- Higher levels of demand in 1973 helped to make investment in new capacity desirable even at a high cost, but a declining economy made such investment less desirable by late 1974.

Recent Trends

- Plant and equipment cost increases have slowed but are still slightly higher than comparable finished goods price increases.
- Producers' durable equipment prices are now rising faster than plant construction costs -- 6.9 percent compared with 3.8 percent from 1975 to 1976.

- Construction materials prices are rising faster than the more inclusive industrial commodities prices.
- Construction labor costs are rising more slowly than general labor costs. The average hourly earnings of construction workers increased 5.3 percent from December 1975 to December 1976 compared with an 8.2 percent increase for all production workers in manufacturing.
- The cost of capital funds has declined, and their availability increased. Firms are also raising more funds internally, and have found outside equity financing more attractive. Altogether, firms are reverting to a more traditional credit mix.

WAGE MONITORING

Collective Bargaining Review of 1976, Outlook For 1977

In February the Council published a report which analyzed the major collective bargaining negotiations for 1977 and reviewed the major 1976 settlements in terms of their implications for 1977.

The collective bargaining calendar in 1977, like 1976, is relatively heavy. An estimated 4.9 million workers are covered by major collective bargaining agreements expiring or subject to wage reopening provisions in 1977, compared to 4.4 million workers in 1976. More than half of the workers who are negotiating are in six major industries -- construction, telephone communications, class I railroads, basic steel, retail food, and bituminous coal. The following table shows the expiration date, union(s), and number of workers for each industry:

TABLE 1
MAJOR EXPIRATIONS

Date	Industry	Union(s)	Workers Covered
March-July	Construction	18 craft unions	828,000
July 31	Basic steel	United Steelworkers	365,000
August	Telephone Communications	Communication Workers and Electrical Workers	735,000
December 6	Bituminous Coal	United Mineworkers	125,000

UAW Settlement

After a four week strike against the Ford Motor Company, the United Auto Workers -- the nation's second largest union -- signed a contract in October 1976 with Ford that set the pattern for subsequent settlements with Chrysler and General Motors.

This agreement covers about 725,000 workers and generally sets the pattern for an additional 95,000 workers in the agricultural implement field. The combined total of 820,000 is about 1/5 of all workers covered by major collective bargaining agreements in 1976.

On January 13, 1977, the Council released its analysis of the collective bargaining agreement between the UAW and Ford, General Motors and Chrysler. The main points of the report are:

- 1) The wage increases anticipated under this agreement are somewhat less than those contained in the other major 1976 settlements which the Council has already analyzed -- namely the trucking, rubber, and electrical settlements. However, the autoworkers came to the bargaining table already protected by an uncapped cost-of-living escalator clause. Moreover, some of the fringe benefits, including extra days of paid leave, payments into a Supplemental Unemployment Benefits Fund, and the companies' assumption of the full cost of rising health care premiums, boost total labor costs significantly and could prove a harbinger for future major settlements. When these benefits are taken into account, the increase in total compensation over the life of the agreement is estimated at 32.5 percent, or 9.8 percent per year, assuming an average annual inflation rate of 6 percent.
- 2) The provision of extra days of paid leave has been described largely as an employment-generating mechanism. The extra days of paid leave, to the extent that they are not offset by productivity gains, mean that companies will have to hire more workers to achieve any given level of production. This means lower output per man hour, and, hence, higher unit labor costs and higher auto prices. If labor costs and prices rise more as a result of this provision than would have been the case under a different total compensation package that excluded such a provision, the share of the market held by domestic auto manufacturers may decline, leading to fewer

jobs for U.S. auto workers. Moreover, if higher labor costs generated by this provision stimulate domestic producers to economize on labor in the production process, this will also limit job opportunities for auto workers. In short, the net impact on employment of additional paid leave is uncertain.

The Council's role with regard to public sector activities is essentially to act as a watchdog, warning against actions which might have inflationary consequences and as a catalyst for improved economic analysis by agencies. While it cannot block actions by other government agencies, the Council's inflationary impact findings are made available to the agencies and the public by filing comments with an agency or by testifying in open hearings. In addition, the Council regularly reviews the Inflation Impact Statements [since December 31, 1976, these statements carry the new name Economic Impact Analyses (EIA)] that executive branch agencies are required to make when they propose rules and regulations which are considered "major" (see Appendix C).

In carrying out its role, the Council reviews proposed government actions and examines the costs and benefits of alternative actions. To the extent that the costs of a proposed regulation exceed the benefits, resources would be withdrawn from other markets where their use is valued more highly. This lessens the overall efficiency with which society's resources are used and dampens the prospects for improvements in productivity. It should also be noted that the "cost" of a regulation may be the foregone opportunity of adopting a better one. Therefore, to the extent that the goals of a proposed regulation could be achieved in a less costly manner than the method which the regulation contemplates, that regulation is inefficient. The costs which are associated with such a proposed regulation ultimately are translated into higher prices. Thus, such costs may become reflected in and add to the overall price indices (such as the Consumer Price Index) more than is necessary to accomplish the same regulatory goals.

The Council also believes that the same criteria should be used to reassess existing rules and regulations, and standards in the light of changing economic circumstances. In addition, agencies are encouraged to make full use of their administrative discretion in the timing of their actions if, by so doing, short-run inflationary pressures could be eased.

The actions of the Council this quarter that concern the federal sector are summarized below.

FOODS AND DRUGS

Over-the-Counter Drugs

On January 7, the Council filed related comments with the Federal Trade Commission (FTC) and the Food and Drug Administration (FDA) concerning their proposals to regulate advertising and labeling of over-the-counter drugs (OTC).

The FTC proposal would place strict limitations on words used in advertising OTC drugs and relates to an ongoing FDA review of all OTC drugs. FDA is defining language for use on labels and package inserts, and FTC is proposing that FDA language specifications be required in all advertising. The Council proposed that FTC await the completion of the FDA review and base their actions on a thorough cost-benefit analysis. The Council also suggested that FTC-FDA develop a seal of approval which could be adopted voluntarily by producers and advertisers of OTC drugs. FTC and FDA as of March 31, 1977 had not yet published their final rules.

Milk Price Supports

The Council filed comments on March 4 with the U.S. Department of Agriculture (USDA) opposing any increase in the support price for milk and recommending that serious consideration be given to lowering the support level towards its statutory minimum of 75 percent of parity. The Council's comments (which built on comments previously submitted to USDA on February 4, 1976) argued that supporting prices above competitive levels leads producers to increase supply and consumers to decrease consumption of dairy products, and that such a policy imposes cost on taxpayers and consumers.

In its filing the Council presented estimates of the costs of supporting milk at alternative levels. For example supporting milk at 80 percent of parity would cost consumers and taxpayers in excess of \$900 million over the coming year. An increase in the support level from 75 to 80 percent would raise the Consumer Price Index for food by almost two-tenths of a percent.

On March 22, USDA announced that the support price would be increased to 83 percent of parity on April 1, 1977.

TRANSPORTATION

Trucking

Piggyback Services

On January 7, the Council urged the Interstate Commerce Commission (ICC) to eliminate the circuitry limitation which applies to Trailer-on Flatcar (TOFC or piggyback) service utilized by truckers. Under present regulations, a trucker with a circuitous route between two points may not use TOFC unless the distance exceeds 80 percent of the mileage over the authorized circuitous route.

In its filing, the Council maintained that complete elimination of this limitation would lead to fuel savings, reductions in operating cost and less air pollution. The Council did not believe there was reason to be concerned about "destructive competition" occurring as a result of the changes in regulations.

Agricultural Cooperative Exemption

On February 15 the Council filed comments before the Interstate Commerce Commission (ICC) criticizing its proposed action to limit the exemption from regulation held by agricultural cooperatives. These regulations were proposed by ICC in order to deal with an alleged increase in the unlawful use of the agricultural cooperative exemption from ICC motor carrier regulations.

By law, an agricultural cooperative's transportation of its members' goods is exempt from the ICC's entry and ratemaking regulations. Cooperatives also enjoy certain privileges in transporting nonmember goods.

The Council noted that the ICC had not shown that these regulations were necessary or would assist in solving specific problems. The Council's comments on the proposed rules expressed concern that restricting the cooperative exemption would raise co-op shipping costs and that these higher costs would be passed on to consumers in the form of higher food prices.

Automobiles

Average Fuel Economy

Council comments were filed on January 3 with the National Highway Traffic Safety Administration (NHTSA) regarding proposed rules under which automobile manufacturers might petition to obtain reductions in Federal fuel economy standards when more strict emission, safety, or crashability standards are imposed by government. The Council urged NHTSA to use cost-effectiveness as its criterion for evaluating the proposed petitions and asked that fuel economy reductions not be used to "bail out" financially weak firms. NHTSA established its final standards on June 30, 1977.

Airlines

Airline Regulatory Reform

On March 22 the Council's Acting Director, Robert W. Crandall, testified before the Senate Aviation Subcommittee about the Council's views on airline regulation. He stated that the Council believes that less Federal regulation would benefit the public through lower fares, and the fundamental health of the nation's air transportation industry would not be endangered.

Crandall noted that in studying regulatory issues in various industries it has been observed that government regulation frequently leads to higher prices than would be the case under an unregulated competitive market. There may be no better example of this effect than in the airline industry, where the Civil Aeronautics Board has limited competition by restricting entry and prohibiting rate competition.

General

Surface Transport Regulation

On January 19, the Council released its staff report entitled The Interstate Commerce Commission's Staff Analysis of the Cost and Benefits of Surface Transport Regulation. This report is in response to the November 23, 1976, ICC's Bureau of Economics' analysis entitled, A Cost and Benefit Evaluation of Surface Transport Regulation. The Council staff report was prepared by Dr. W. Bruce Allen of the University of Pennsylvania and Dr. Edward B. Hymson of the U.S. Department of Transportation.

The strongest criticisms in the staff report concern the Bureau's analysis of the benefits of ICC regulation. The Council report stresses that many of the so-called benefits of regulation stem from actions which also impose costs on other sectors of the economy. Thus, the Bureau fails to distinguish between transfers from one group in society to another and net benefits. The report takes strong issue with the Bureau's contention that ICC regulation has held down motor carrier rate increases. It also criticizes the Bureau for not examining more recent studies of the costs of regulation which meet some of the criticisms of methodology raised by the Bureau.

OCCUPATIONAL SAFETY AND HEALTH

Commercial Diving Standards

On January 21, the Council opposed standards for commercial diving proposed by the Occupational Safety and Health Administration (OSHA). The Council pointed out methodological flaws in the Inflationary Impact Assessment prepared by OSHA and criticized OSHA for a failure to adequately assess the impact of the standards on productivity, energy, and the structure of the industry.

The Council objected to the technological approach to safety and health which was reflected in the proposed standards. The Council also noted that OSHA had developed the standards without adequate data and that the standards were not designed rationally. The Council estimated that the standards would cost \$14 million per life saved. OSHA was urged

to compare this cost of saving lives with the cost of other public endeavors to reduce fatalities so that a maximum number of lives may be saved with resources devoted to this purpose.

Lead Exposure

On March 15, the Council commented on a standard proposed by the Occupational Safety and Health Administration (OSHA) which would limit the lead exposure of workers in smelters, battery manufacturing plants, pigment manufacturing plants, and others. The proposal would require installation of engineering controls to reduce the maximum exposure level from the present 200 micrograms of lead per cubic meter of air to 100 micrograms. The proposal would also require extensive biological monitoring of employees to detect overexposure to lead. OSHA estimated that the proposal could result in additional capital costs of approximately \$949 million and annual operating costs of \$190 million.

The Council was concerned with the lack of adequate benefit analysis and the absence of consideration of other, less costly means of safeguarding employee health. The Council urged OSHA to consider a program of rigid enforcement of the current standard coupled with heavy reliance on biological monitoring of employees. In this way, firms would be free to rely on the most cost-effective means of reducing the risk of lead exposure. These means could include engineering controls, revised work practices and personal protective equipment.

ENVIRONMENT

Air Emission Trade-off Policy

On March 7 the Council filed comments with the Environmental Protection Agency (EPA) regarding an Interpretative Ruling which would allow industrial expansion in regions where national ambient air quality standards have not been attained. The Ruling called for a market-like process where an existing source could be persuaded to reduce its emissions to allow an expansion of emissions from a new source. EPA proposed a greater than one-for-one offset of emissions where exchange takes place. The Council endorsed EPA's Ruling and suggested ways to strengthen the resulting market process by asking that firms be allowed to "bank" emission rights and that proponents of improved air quality be allowed to purchase emission reductions. The Council also asked that the greater than one-for-one offset policy be considered in terms of benefit and costs.

T.V. Imports

On January 18, the Council testified before the International Trade Commission (ITC) on the petition of certain members of the domestic television receiver industry requesting import relief from foreign producers. The Council estimated that the relatively few jobs that might be created by a ten percent tariff would cost consumers over \$53,000 per job. The Council also pointed out that the industry is already highly concentrated and that the removal of foreign competition would likely have harmful long run consequences for American consumers. The Council recommended that if the ITC found injury, that it recommend to the President that trade adjustment assistance be expedited to protect the workers in the industry at the lowest costs to consumers.

OTHER ACTIONS

UHF Noise

On March 16, the Council filed comments with the Federal Communications Commission (FCC) concerning a proposal to improve UHF reception by reducing the so-called "noise figure" of television receivers from the present 18 dB limit to a 10 dB limit.

The Council noted that the particular interrelationship between the broadcasting and television manufacturing industries justifies the present policy of mandating TV receiver standards. However, the Council also noted that improved UHF reception also can be achieved by increasing the transmitting power of UHF broadcasting stations. Using rough figures, the Council estimated the cost of improving reception by both alternatives and concluded that an increase in transmission power represented the least costly alternative.

The Council also noted that the proposal to change the receiver noise standard would impose increased costs on all purchasers of television sets while yielding benefits only to a small proportion of television viewers. The proposal thus has the characteristics of an excise tax imposed on all in order to benefit a few.

The Council also suggested that the FCC consider the possibility of requiring the labeling of the noise figure on television receivers so that consumers can more adequately evaluate this factor when purchasing television sets.

Effect of Government Regulation on the Steel Industry

On February 25, 1976, the Council announced the initiation of a study of the economic impact of Federal regulation of the domestic iron and steel industry. The Council's study represents the first time that an agency of the Federal government has examined the total impact of all

government regulations which apply to a particular industry with emphasis on the aggregate benefits and aggregate costs which result from the application of those regulations.

On January 18, 1977, the Council released a 235-page volume entitled Catalog of Federal Regulations Affecting the Iron and Steel Industry. This volume, prepared by the Council's Office of General Counsel, catalogs and explains the Federal regulations and policies which affect the manufacture of steel.

The regulatory areas included in the study are:

- Environmental Regulation
- Occupational Safety & Health Regulation
- Regulation of Discrimination in Employment
- Regulation of Industrial Relations
- Antitrust Regulation
- Foreign Trade Regulation
- Federal Income Tax Regulation
- Energy Regulation
- Miscellaneous Regulation

Over 5,000 Federal regulations from 27 Federal agencies impact the steel industry, and many of these regulations are listed and discussed in the catalog. The catalog also discusses the trend in Federal regulation from proscriptive regulation to prescriptive regulation. The catalog concludes with recommendations for further study of Federal regulations.

The second part of the study, sponsored jointly by the Council and the National Center for Productivity, is an appraisal of existing estimates of the economic impact of these regulations and a proposal of methods to improve these estimates. Specifically, the second part of the study develops improved methodological approaches which could facilitate future efforts to make estimates of regulatory costs and benefits. Dr. Howard Pifer and Dr. Paul W. Marshall, consultants with extensive knowledge of the steel industry and its regulation, are completing this part of the study.

CHAPTER IV

STUDIES IN PROGRESS

In continuing its program of monitoring price and wage trends and the inflationary potential of government activities, the Council has a number of studies in progress. Reports on many of these were completed and released during the second quarter of 1977.

INDUSTRY PRICE BEHAVIOR

AUTOMOBILES*

On February 18, 1976, the Council announced an investigation of increases over the last two years in the prices of automobile replacement parts. Measured by the wholesale price index for auto parts -- a composite index for original equipment parts and for replacement parts -- prices increased 23.8 percent in 1974 and by another 9.9 percent in 1975. For the same periods, the wholesale price index for new cars increased by 12.9 and 6.0 percent, respectively. Data provided to the Council by several automobile insurance companies revealed that the most rapidly rising prices were those for crash replacement parts; prices for maintenance parts have been rising less rapidly.

The Council decided that an in-depth investigation of these price increases was required. While the investigation has focused on crash parts, it also includes maintenance parts prices. Price and cost data were collected to analyze the causes of increases in these prices. The automobile manufacturers have submitted price information for each year since 1971 on all replacement parts sold by them. The Council staff has compiled samples of both crash and maintenance parts prices for analysis, and the automobile manufacturers have also been requested to supply cost and quantity information for those parts. Independent parts manufacturers have provided information regarding the parts they produce for both the original equipment and replacement markets and have been requested to provide information on prices and costs for selected parts.

FOOD

A Study of Bread Prices*

In April 1975, the Council began an investigation into prices of cereals and bakery products. The Council's preliminary findings were released in January 1976, along with an announcement that a more comprehensive study was being launched. The final report on bread prices is near completion.

The report examines the relationship of major commodity prices to bread prices for recent years, details significant changes which have occurred in the structure of the bread-baking industry since 1963, analyzes price-cost relationships for the period 1971-75, and evaluates the profitability of bread baking-wholesaling at the prevailing price-cost levels.

HEALTH CARE

Physicians Fees

Work is progressing on a study of physician fee inflation. Primary topics being investigated are: (1) whether, because of changes in the structure of consumer expenditures for medical care, the Consumer Price Index accurately measures inflation in the medical care sector and; (2) a determination of the primary factors responsible for rapidly rising physician fees. More specifically, what are the roles of increasing insurance coverage and methods of insurance reimbursement for medical expenses in promoting fee inflation and to what extent is fee inflation a reflection of increasing costs to the physician, particularly malpractice costs.

The extent of fee variations across specialties and across geographical areas is also being studied, and an attempt is being made to relate the extent of observed variation to factors that are thought to influence the supply and demand for physicians' services.

METALS

The staff is continuing its work on a comparative study of the pricing of steel, aluminum, copper, lead, zinc, and magnesium. The study will cover the period from January 1972 to the present, and will examine the behavior of underlying trends in production, shipments, inventories and imports and relate those trends to the different pattern of price increases which have occurred in those industries. In a similar way, changes in costs of production and profit rates will also be analyzed. The study also includes an attempt to estimate the costs of new investments and the price necessary to encourage capacity expansion.

TEXTILES

The textile industry is one of the larger and more important raw material industries. The value of shipments of the industry is in excess of \$30 billion and textile manufacturers are the major suppliers of raw materials and semi-processed goods to the apparel industry. The availability of this supply is an important factor in the presence or absence of inflation in the apparel industry.

The Council has in progress a study of the costs and availability of new productive capacity in the textile industry. The study will attempt to estimate the construction costs of a new textile plant, the operating costs over the life of the plant, and finally, the long run supply price for various textile products. This process, when coupled with demand projections, should enable us to ascertain whether or not shortages of textile products will exist in the near future.

INDUSTRIAL CAPACITY

The Council staff is currently engaged in an ongoing series of studies on the problem of financing new industrial capacity in an attempt to measure the inflationary potential deriving from future investment needs. These studies are focusing upon the price-cost relationships and the adequacy of current prices for amortizing new capital facilities. The studies will attempt to identify the determinants of capital investment, the inflation in product prices required to attract capital, and specific problems related to undertaking new investment.

GENERAL PRICE STUDIES

PRICE MEASUREMENT^{*}

One of the mandates given to the Council is to improve wage and price data bases for the various sectors of the economy. In its studies, the Council staff has encountered many problems with the Wholesale Price Index (WPI). These problems were noted in a speech by the Council Director on May 20, 1975, at which time a study of the adequacy of the WPI for wage/price monitoring was announced. The study, conducted by Yale University Professor Richard Ruggles through the National Bureau of Economic Research, has examined such issues as the redundancy and the gaps in the WPI and the extent to which WPI prices reflect actual transactions prices.

RECESSION PRICES

The Council is completing a new report which extends and refines its earlier study on the behavior of prices during the 1974-75 recession and the effect of industrial concentration on the cyclical responsiveness of prices. The first report, released on May 11, 1976, indicated that (1) prices were less responsive during the recent recession than during previous downturns, (2) rates of price change varied at different stages of the recession, (3) there is some limited but not clear-cut

STAGE-OF-PROCESS PRICE BEHAVIOR

The Council has commissioned the National Bureau of Economic Research, with Dr. Joel Popkin as principal investigator, to develop a quarterly model of price behavior by stage-of-process for the industrial sector of the economy. The research is centered on price relationships for intermediate and finished goods production in each of eight primary manufacturing industries: textiles, lumber, paper, chemicals, fertilizer, nonferrous metals, and stone, clay and glass. Dr. Popkin has completed the first two phases of the project, which provide econometric estimates of price behavior in the primary (crude) materials sectors and finished and semi-finished manufacturing industries, and he will provide a final report to the Council in July 1977. The Council staff is currently investigating the possibility of extending these results to more detailed price studies.

WAGE STUDIES

PUBLIC SECTOR WAGE MONITORING

The Council is undertaking a study of the differences in total compensation between workers in the private sector and their counterparts in state and local government. The study will examine the economic literature dealing with the impact of and problems associated with collective bargaining in the public sector and with the use of the prevailing wage principle in state and local governments. The Council's analysis will evaluate the effects of these practices on the economy.

ANALYSIS OF COLLECTIVE BARGAINING AGREEMENTS

The Council will publish analyses of the provisions and impact of collective bargaining agreements in major industries during the remainder of 1977. Included will be negotiations in the communications, coal, and railroad industries.

Council Members

The Council consists of eight members and four adviser-members appointed by the President. The Council has a full-time staff headed by a Director who is appointed by the President, with the advice and consent of the Senate.

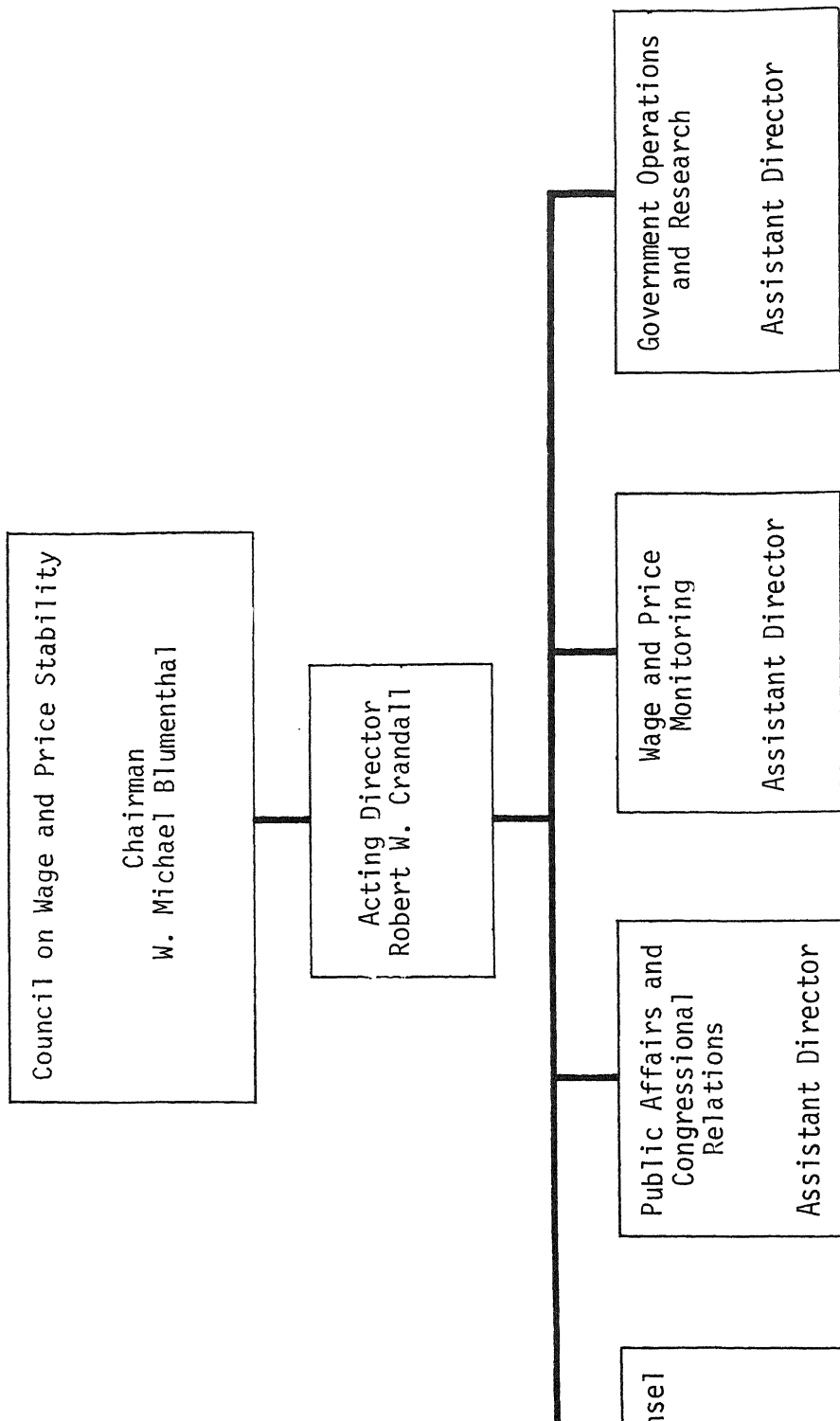
Council Organization and Staffing

The Council's staff is organized into five units: (i) the immediate Office of the Director, (ii) the Office of Wage and Price Monitoring, (iii) the Office of Government Operations and Research, (iv) the General Counsel's Office, and (v) the Office of Public Affairs and Congressional Relations. As of March 31, 1977, the Council's total staff was 51, including 33 professionals, most of whom are economists.

The Council on Wage and Price Stability Act authorizes a \$1,700,000 budget for the Council's operations during each of fiscal years 1976 and 1977. For fiscal year 1976, \$1,589,000 was appropriated for the Council's operations. For fiscal year 1977, \$1,917,000 has been appropriated.

The Council has requested from Congress a FY1978 appropriation of \$241,000 for ten (10) additional economists. This added staff capacity would allow increased monitoring of supply conditions in basic industries within the economy. This appropriation has been approved; however, authorizing legislation is still pending in the House and Senate.

COUNCIL ON WAGE AND PRICE STABILITY



The Council on Wage and Price Stability Act,
Public Law 93-387 (August 24, 1974) as amended
by Public Law 94-78 (August 9, 1975)

AN ACT

To authorize the establishment of a Council on Wage and Price Stability

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Council on Wage and Price Stability Act".

Sec. 2 (a) The President is authorized to establish, within the Executive Office of the President, a Council on Wage and Price Stability (hereinafter referred to as the "Council").

(b) The Council shall consist of eight members appointed by the President and four adviser-members also appointed by the President.

(c) There shall be a Director of the Council who shall be appointed by the President by and with the advice and consent of the Senate. The Director shall be compensated at the rate prescribed for level IV of the Executive Schedule by section 5315 of title 5, United States Code. The Director of the Council shall perform such functions as the President or the Chairman of the Council may prescribe. The Deputy Director shall perform such functions as the Chairman or Director of the Council may prescribe.

(d) The Director of the Council may employ and fix the compensation of such officers and employees, including attorneys, as are necessary to perform the functions of the Council at rates not to exceed the highest rate for grade 15 of the General Schedule under section 5332 of title 5, United States Code. Except that the Director, with the approval of the Chairman may, without regard to the provisions of title 5, United States Code, relating to appointments in the competitive service, appoint and fix the compensation of not to exceed five positions at the rates provided for grades 16, 17, and 18 of such General Schedule, to carry out the functions of the Council.

(e) The Director of the Council may employ experts, expert witnesses, and consultants in accordance with the provisions of section 3109 of title 5, United States Code, and compensate them at rates not in excess of the maximum daily rate prescribed for grade 18 of the General Schedule under section 5332 of title 5, United States Code.

(f) The Director of the Council may, with their consent, utilize the services, personnel, equipment and facilities of Federal, State, regional, and local public agencies and instrumentalities, with or without reimbursement therefor, and may transfer funds made available pursuant to this Act to Federal, State, regional, and local public agencies and instrumentalities as reimbursement for utilization of such services, personnel, equipment, and facilities.

(g) The Council shall have the authority, for any purpose related to this Act, to --

(1) require periodic reports for the submission of information maintained in the ordinary course of business; and

(2) issue subpoenas signed by the Chairman or the Director for the attendance and testimony of witnesses and the production of relevant books, papers, and other documents, only to entities whose annual gross revenues are in excess of \$5,000,000;

relating to wages, costs, productivity, prices, sales, profits, imports, and exports by product line or by such other categories as the Council may prescribe. The Council shall have the authority to administer oaths to witnesses. Witnesses summoned under the provisions of this section shall be paid the same fees and mileage as are paid to witnesses in the courts of the United States. In case of refusal to obey a subpoena served upon any person under the provisions of this section, the Council may request the Attorney General to seek the aid of the United States district court of any district in which such person is found, to compel that person, after notice, to appear and give testimony, or to appear and produce documents before the Council.

Sec. 3 (a) The Council shall --

(1) review and analyze industrial capacity, demand, supply, and the effect of economic concentration and anticompetitive practices, and supply in various sectors of the economy, working with the industrial groups concerned and appropriate governmental agencies to encourage price restraint;

(2) work with labor and management in the various sectors of the economy having special economic problems, as well as with appropriate government agencies, to improve the structure of collective bargaining and the performance of those sectors in restraining prices;

(3) improve wage and price data bases for the various sectors of the economy to improve collective bargaining and encourage price restraint;

(4) conduct public hearings necessary to provide for public scrutiny of inflationary problems in various sectors of the economy;

(5) focus attention on the need to increase productivity in both the public and private sectors of the economy;

(6) monitor the economy as a whole by acquiring as appropriate, reports on wages, costs, productivity, prices, sales, profits, imports, and exports;

(7) review and appraise the various programs, policies, and activities of the departments and agencies of the United States for the purpose of determining the extent to which those programs and activities are contributing to inflation; and

(8) intervene and otherwise participate on its own behalf in rulemaking, ratemaking, licensing and other proceedings before any of the departments and agencies of the United States, in order to present its views as to the inflationary impact that might result from the possible outcomes of such proceedings.

(b) Nothing in this Act, (1) authorizes the continuation, imposition, or reimposition of any mandatory economic controls with respect to prices, rents, wages, salaries, corporate dividends, or any similar transfers, or (2) affects the authority conferred by the Emergency Petroleum Allocation Act of 1973.

Sec. 4 (a) Any department or agency of the United States which collects, generates, or otherwise prepares or maintains data or information pertaining to the economy or any sector of the economy shall, upon the request of the Chairman of the Council, make that data or information available to the Council.

(b) Disclosure of information obtained by the Council from sources other than Federal, State, or local government agencies and departments shall be in accordance with the provisions of section 552 of title 5, United States Code.

(c) Disclosure by the Council of information obtained from Federal, State, or local agency or department must be in accord with section 552 of title 5, United States Code, and all the applicable rules of practice and procedure of the agency or department from which the information was obtained.

(d) Disclosure by a member or any employee of the Council of the confidential information as defined in section 1905 of title 18, United States Code, shall be a violation of the criminal code as stated therein.

(e) Consistent with the provisions of section 7213 of the Internal Revenue Code of 1954, nothing in this Act shall be construed as providing for or authorizing any Federal agency to divulge or to make known to the Council the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed solely in any income return, or to permit any income tax return filed pursuant to the provisions of the Internal Revenue Code of 1954, thereof, to be seen or examined by the Council.

(f)(1) Product line or other category information relating to an individual firm or person and obtained under section 2(g) shall be considered as confidential financial information under section 552(b)(4) of title 5 of the United States Code and shall not be disclosed by the Council.

(2) Periodic reports obtained by the Council under section 2(g) and copies thereof which are retained by the reporting firm or person shall be immune from legal process.

Sec. 5. The Council shall report to the President, and through him to the Congress, on a quarterly basis and not later than thirty days after the close of each calendar quarter, concerning its activities, findings, and recommendations with respect to the containment of inflation and the maintenance of a vigorous and prosperous peacetime economy.

Sec. 6. There is hereby authorized to be appropriated not to exceed \$1,700,000 for each fiscal year ending prior to October 1, 1977 to carry out the purposes of this Act.

Sec. 7. The authority granted by this Act terminates on September 30, 1977.

ECONOMIC IMPACT ANALYSIS PROGRAM

The Council play a major role in the President's Economic Impact Statement Program (known as the Inflation Impact Statement Program prior to January 1, 1977).^{*} The purpose of this program is to encourage Federal agencies to take greater account of the economic effects of their proposals for major new rules, regulations and legislation. When such a proposal is major (in terms of its cost impact on consumers, business, or Federal, state or local governments; or its effect on productivity, competition, employment or energy) a full economic analysis (Economic Impact Analysis) must be prepared by the proposing agency. If the Economic Impact Analysis relates to a proposed rule or regulation, it is the Council's responsibility to review it. If the statement relates to proposed legislation, responsibility for its review belongs to the Office of Management and Budget.

After review of the agency's analysis, the Council may decide to make formal comments to the agency about the quality of its Economic Impact Analysis and/or about the economic consequences of the regulatory proposal. It should be noted that criticism of an Economic Impact Analysis does not necessarily mean that the Council objects to the proposed regulation. It may mean simply that the Council thinks the agency should provide a better analysis of the regulation's likely economic effects. One of the Council's major aims is to help agencies improve the quality of their economic analysis so that important regulatory decisions are made with fuller awareness of their economic consequences.

Progress has been made in the administration of this program. In consultation with OMB and the Council, agencies have established criteria for identifying those proposals which are important enough to warrant an Economic Impact Analysis. Problems which were serious at the program's outset--particularly tardy compliance and uneven analytical quality--are gradually being resolved. While the Council has filed critical comments in a number of rulemaking proceedings, most agencies are making a commendable effort to analyze more carefully the major rules and regulations they issue.

^{*}Established by Executive Order No. 11821 issued November 27, 1974; Executive Order No. 11949 issued December 31, 1976; and OMB Circular No. A-107, issued January 28, 1975.

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